The Week Ahead: Fed and ECB October minutes are key releases

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US: October FOMC minutes to reaffirm steady rate outlook

The FOMC's October meeting minutes (due 20 November) will be the key release from the US this week. We expect the tone of the minutes to be relatively hawkish, along the lines of the post-meeting press conference and recent Fed communication. We expect the minutes to show a broad agreement that interest rate policy is sufficiently accommodative after the insurance rate cuts (75 bps in total) and that rates will remain on hold. The Fed has indicated that a material reassessment of the outlook would be necessary for a change in its policy stance. We will be looking for any fresh insights into the conditions (risks) that would warrant a material reassessment of the economic outlook. The discussions over Treasury bill purchases will also be watched closely to gauge the Fed's views on liquidity conditions. Our base case is for the Fed to stay on hold in December and 2020, but rate cuts look more likely than hikes at this point. Moving to the US-China trade negotiations, there are indications that both countries are struggling to agree the terms of the phase-one trade deal. The key issues include intellectual property rights, the timeline of Chinese purchases of US agricultural goods and the rollback of earlier tariff hikes.

Global: ECB minutes to highlight divisions within the GC

The ECB will also publish its October meeting minutes on 21 November. We expect the minutes to highlight divisions within the Governing Council (GC), with some members supporting the current accommodative monetary policy stance and others opposing the recent easing. A number of GC members including President Christine Lagarde and Chief Economist Philip Lane have speaking engagements this week. We expect Lagarde to reiterate her support for the accommodative monetary policy stance, whilst highlighting the need for expansionary fiscal policy to boost inflation and the growth outlook. Elsewhere, Japan will release October inflation data this week, with consensus forecasting core CPI (ex-fresh food) to rise marginally to 0.4% y-o-y, from a multi-year low of 0.3% in September. The consumption tax hike that came into effect in October is likely to be the key factor behind the marginal uptick.

MENA: Saudi Aramco IPO size and valuation; Egypt rate cut

Saudi Aramco provided further details on its IPO yesterday in an updated prospectus. The details imply a preliminary valuation of c.USD1.6-1.7 trillion, below the USD2 trillion stated when the IPO plans were initially outlined in 2016. Aramco noted that the base offer size will be 1.5% of the company's outstanding shares. If priced at the top of the valuation, the deal could raise USD25.5 billion, c.3.4% of our estimated 2019 GDP forecast. The funds should support investment activity in 2020, but are unlikely to play a significant role in meeting the country's medium-term capital requirement. The amended prospectus removed references to the regulations on selling shares directly to international investors (including US); the deal is now restricted to Saudis and foreign institutions that can invest in the Tadawul. Meanwhile, the CBE cut its benchmark interest rates by 100 bps last week (page 2).

I. Recent Events and Data Releases

A. MENA Economies

Egypt: CBE cuts by 100 bps; further easing expected in 2020

CBE lowers rates by total of 450 bps this year

The CBE lowered its benchmark policy rates by 100 bps at its 14 November meeting, in line with our and consensus expectations, taking the lending rate to 13.25% and the deposit rate to 12.25%. This was the third consecutive rate cut, bringing the total reduction this year to 450 bps. We had expected the cut on the back of further global monetary easing, the strengthening of the EGP and the recent moderation in inflation, which had resulted in real interest rates rising. Real yields rose to around 10% in October as headline inflation slowed to 3.1% y-o-y in the month, a multi-year low and well below the central bank's target of 9% (±3 pp) for end-2020. For more details, please see our **Economic Research Weekly: Global Data Watch 11-15 November 2019**, published on 11 November 2019. The central bank reiterated in its post-meeting statement that "incoming data continued to confirm the moderation of underlying inflationary pressures" and the rate cut "remains consistent with achieving the inflation target".

CBE to increasingly balance rate cuts with level of real yields

Looking ahead, we expect the CBE to remain on hold at its December MPC meeting as it gauges the impact of the recent consecutive rate cuts and the magnitude of the inflation bounce. We expect to see the year-on-year inflation rate starting to gradually rise in November, before picking up more markedly in December as the annual base becomes less favourable. Indeed, there was an acknowledgement of this in the meeting minutes. Nevertheless, we believe that the inflation will remain within the CBE's end-2020 target, providing space for a further 100-200 bps cut in 2020. The continuation of the easing cycle should further support capital flows into the stock market, while boosting economic activity and reducing government servicing costs. However, the MPC will increasingly look to balance rate cuts with the level of real yields in our view, to ensure there is sufficient demand for government debt and for the stable management of the EGP. Meanwhile, CBE Governor Tarek Amer's term ends at the end of this month. So far, there are no indications of whether his term will be extended or a new governor will be appointed.

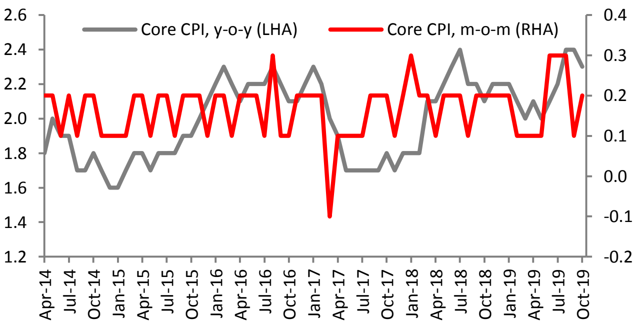
B. G4 Economies

US: October CPI inflation report presents mixed picture

Core CPI strengthens modestly to 0.2% in October, from 0.1% in September. Details present mixed picture

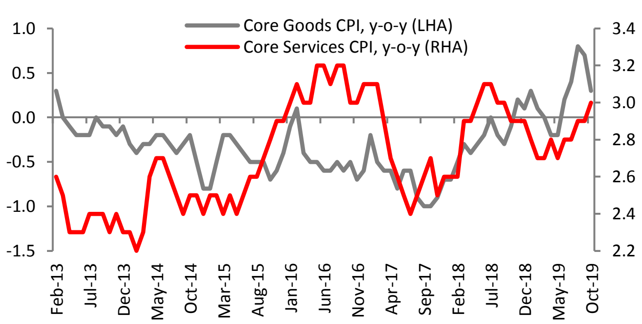
Headline CPI inflation accelerated to 0.4% m-o-m in October, beating both the consensus expectation of 0.3% and September's flat (0.0%) reading. The pick-up in the headline print was likely due to an unseasonal spike in energy prices on the back of a refinery outage in the West. Core CPI inflation also accelerated in October, albeit modestly to 0.2% m-o-m (September: 0.1%; consensus: 0.2%), taking the y-o-y reading down to 2.3%, from 2.4% previously. The details of the monthly core CPI reading were mixed and contained a lot of noise. The volatile components (used cars and trucks, and medical care) saw a sharp rebound in October, whilst all other major core sub-components eased. Notably, shelter inflation (33% weightage in CPI index) decelerated markedly to 0.1% m-o-m in October (September: 0.3%), the smallest monthly rise since April 2011. We would caution against overplaying to one month of softness in the shelter component, as the other high-frequency indicators still pointed to a solid economic momentum. However, a persistent downshift in shelter prices would present downside risks to the inflation outlook. The softening in most of the core CPI sub-components in October is likely to result in subdued core PCE inflation, which is due on 27 November. Moreover, there were no clear signs of any significant pass-through from the September round of tariffs to consumer prices as yet.

Fig. 1. US: Monthly core CPI inflation ticks up in October, but y-o-y reading moderates



Source: Bureau of Labor statistics

Fig. 2. US: Core goods inflation softens for second successive month, suggesting no impact from tariffs



Source: Bureau of Labor statistics

Powell reiterates that material reassessment of outlook is necessary for any Fed policy action

Meanwhile, Fed Chair Jerome Powell reiterated during his testimony last week that "the current stance of monetary policy is likely to remain appropriate as long as incoming information about the economy remains broadly consistent with our outlook." He also underlined that "a material reassessment of our outlook" would be necessary for a change in the Fed's monetary policy stance. We expect the US economy to expand at a solid pace in 2020, driven by household consumption. We believe that the Fed is likely to remain on hold at the December policy meeting and in 2020. However, we believe that the probability of a rate cut is higher than that of a hike at this point.

US Retail sales: Headline retail sales growth accelerated to 0.3% m-o-m in October (consensus: 0.2%, September: -0.3%), suggesting that household consumption continued to expand at a healthy pace at the beginning of 4Q. Strong online spending remained a key driver of growth. The retail control group, which feeds into the personal consumption side of the GDP report, also strengthened to 0.3 m-o-m in October, although the September print was revised down to -0.1%, from flat (0.0%) previously.

Japan: Domestic demand is key driver of 3Q GDP growth

Personal consumption grows at solid pace of 0.4% q-o-q in 3Q, albeit slower than consensus expectation

Real GDP growth decelerated to 0.1% q-o-q in 3Q, lower than the consensus expectation of 0.2% and an upwardly revised 0.4% (0.3% previously) expansion in 2Q. The downside surprise in headline GDP growth was partly due to lower-than-expected personal consumption growth of 0.4% q-o-q in 3Q (consensus: 0.6%; 2Q: 0.6%). Cool temperatures and prolonged rainfall in July are likely to have affected services consumption in 3Q. Despite the softer household spending growth in 3Q (versus 2Q), inventories declined and contributed negatively to headline GDP growth. Net exports also contributed negatively to growth in 3Q amid US-China trade tensions, weak global demand and soft tourist spending. The key positive takeaway from the 3Q GDP growth report was the pick-up in business investment (0.9% q-o-q versus 0.7% in 2Q), likely driven by 2020 Olympics related spending. In total, the Japanese economy continues to be driven by domestic demand, whilst external headwinds persist. Looking ahead, we expect 4Q GDP growth to remain weak for two reasons: i) a negative impact from Typhoon Hagibis in October; and ii) some payback from front-loaded spending in 2Q and 3Q, ahead of the VAT rise.

UK: Annual GDP growth slows to multi-year low of 1.0% y-o-y in 3Q

UK economy expanded by 0.3% q-o-q in 3Q, led by consumer and government spending

Real GDP grew by 0.3% q-o-q in 3Q, after contracting by 0.2% in 2Q, resulting in the economy avoiding a technical recession. However, the annual growth rate softened to 1.0% y-o-y in 3Q (2Q: 1.3%), the weakest expansion since 1Q2010. The breakdown of the data suggests that consumer and government spending was solid in 3Q, whilst business investment remained weak amidst Brexit uncertainties. Net exports contributed positively (+1.2pp) to headline growth, whilst inventories subtracted 0.9pp from growth. The soft import growth ahead of the 31 October Brexit deadline was somewhat surprising, though this likely reflected the expectation of an Article 50 extension. Nevertheless, we would like to highlight that the recent GDP reports have been volatile, partly because of large fluctuations in inventories and flows of non-monetary gold.

Eurozone: Second estimate of 3Q GDP growth revised up to 1.2% y-o-y

Germany avoids technical recession in 3Q

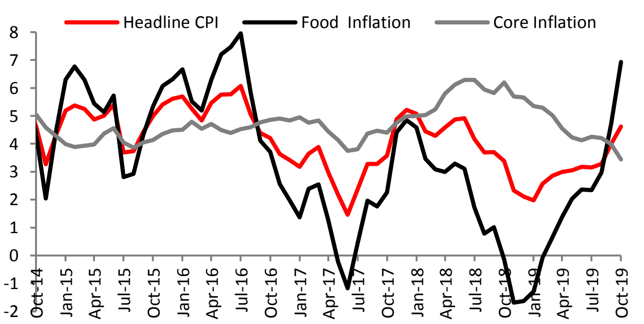
The second estimate of the Eurozone's 3Q GDP growth was confirmed at 0.2% q-o-q, as in 2Q. However, the annual reading was revised up to 1.2%, from 1.1%. Expenditure splits of the GDP report will be available only after the final estimate (5 December). The indications are that all the major Eurozone economies, including Germany, Italy, France and Portugal, have reported an expansion in 3Q. Notably, Germany avoided a technical recession in 3Q, driven by an improvement in consumption activity. Looking ahead, the incoming high-frequency data suggests that 4Q GDP growth will remain broadly steady at around 0.2% q-o-q.

C. Emerging Market Economies

India: Headline inflation strengthens, whilst core softens

Fig. 3. India: Food inflation is key driver of annual headline inflation in October; core inflation is muted

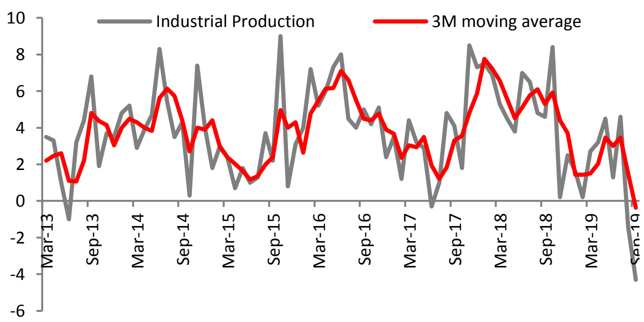
% change y-o-y



Source: India Central Statistical Organisation

Fig. 4. India: Industrial production growth contracts for second consecutive month in September

% change y-o-y



Source: India Central Statistical Organisation

Spike in vegetable prices driven by flooding in some parts of the country

Headline CPI inflation accelerated to a 16-month high of 4.6% y-o-y in October, higher than both the consensus expectation of 4.4% and the September reading of 4.0%. The rise in headline inflation was driven mainly by the food segment (fruits and vegetables), which strengthened to a 39-month high (6.9% y-o-y). Loss of agricultural crops during the monsoon season (uneven rains and floods) was the key reason behind the spike in vegetable prices, along with a low base during the previous year. We expect vegetable prices to remain elevated in the next three months, but to gradually ease thereafter once the new winter crops enter the market. However, core inflation (ex-food, tobacco and fuel) remained subdued and decelerated to a series low of 3.4% y-o-y in October (September: 4.0%), reflecting weak aggregate domestic demand. The moderation in core inflation, especially during the month of Diwali, suggests that consumer sentiment remains precarious and is likely to remain so into 2020. We see potential for core inflation to decelerate further towards 3.0% y-o-y by March 2020.

We forecast repo rate to be 4.75% by end-FY2019-20 (April –March)

Our core scenario remains for a 25 bps rate cut at its December policy meeting, with the MPC citing soft domestic demand and subdued core inflation. Nevertheless, we now expect the tone of the communication to be more cautious than at the October MPC meeting, following the recent acceleration in headline inflation. We still expect the RBI to keep the door open for another rate cut in February, though this will be inflation data dependant. We currently forecast a small cut of 15 bps at the 6 February policy meeting, taking the policy rate to 4.75%.

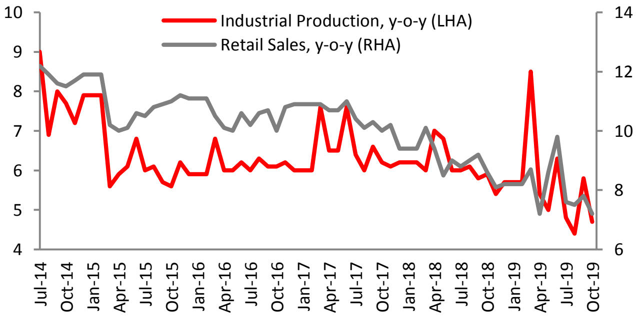
China: Economic activity softens further in October

Retail sales growth decelerates to 7.2% y-o-y in October, from 7.8% in September

China's economic activity data for October surprised to the downside, suggesting that domestic demand softened further at the beginning of 4Q2019. Retail sales growth decelerated to 7.2% y-o-y in October – lower than both the consensus estimate and the September print of 7.8%. This was significantly below the 2018 average growth rate of 9.0% y-o-y and the 2019 YTD average of 8.1%. We believe that the downtrend in retail activity will continue into 2020, partly due to relatively tight credit conditions. Indeed, aggregate lending reached a series low of CNY618.9 billion in October, due to renewed efforts to clean up the banking system. The lower lending activity also had a marked impact on fixed asset investment growth, which moderated to a multi-year low of 5.2% y-o-y in October (September: 5.4%). Other key contributing factor was softening investment activity by corporates on the back of the US-China trade tensions.

Fig. 5. China: Both retail sales and industrial production growth decelerate in October

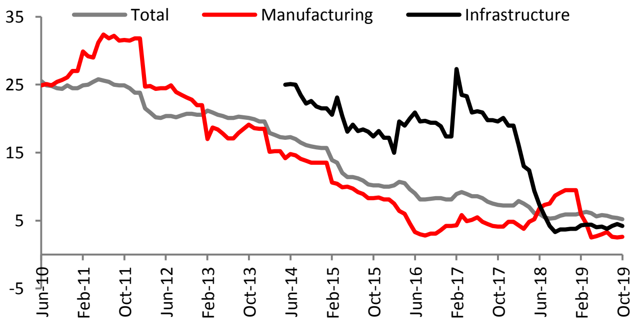
% change y-o-y



Source: National Bureau of Statistics

Fig. 6. China: Fixed asset investment growth slows to 5.2% y-o-y in October, led by infrastructure sub-segment

% change y-o-y



Source: National Bureau of Statistics

Targeted fiscal and monetary policy support to continue in 4Q2019 and 2020

We believe that economic growth will remain subdued in 4Q2019 and 2020, although we expect the government to initiate some additional fiscal easing measures to bolster the still weak domestic demand. We also see the PBoC continuing with its gradual and targeted monetary policy support in the near term. We see potential for a 5 bps cut to the benchmark loan prime rate (LPR) on 20 November, followed by a 25-50 bps reserve requirement ratio (RRR) cut in early 2020, to boost liquidity conditions in the economy.

II. Economic Calendar

Fig. 7. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Abu Dhabi CPI, y-o-y	Oct	-1.8%	
	UAE	Dubai CPI, y-o-y	Oct	-2.9%	
	Saudi Arabia	CPI, y-o-y	Oct	-0.7%	
	Kuwait	CPI, y-o-y	Oct	1.7%	
	Oman	CPI, y-o-y	Oct	0.0%	
	Bahrain	CPI, y-o-y	Oct	1.2%	
Monday, 18 November					
13:00	Eurozone	ECB's Guindos speaks in Frankfurt			
16:30	Eurozone	ECB's Hernandez de Cos to speak in Madrid			
17:20	Eurozone	ECB's Lane speaks in Paris			
19:00	US	NAHB Housing Market Index	Nov	71.0	71.0
21:00	US	Fed's Mester Speaks at University of Maryland			
	Egypt	Trade Balance	Sep	-3506.0M	
Tuesday, 19 November					
1:00	US	Net Long-term TIC Flows	Sep	-$41.1B	
11:00	Eurozone	EU27 New Car Registrations	Oct	14.5%	
17:30	US	Building Permits	Oct	1387K	1380K
17:30	US	Housing Starts	Oct	1256K	1320K
18:00	US	Fed's Williams Speaks at Capital Markets Conference			
Wednesday, 20 November					
3:50	Japan	Exports, y-o-y	Oct	-5.2%	-7.5%
5:30	China	1-Year Loan Prime Rate	Nov	4.2%	4.2%
16:00	US	MBA Mortgage Applications	15-Nov	9.6%	
23:00	US	FOMC Meeting Minutes	30-Oct		
Thursday, 21 November					
8:30	Japan	All Industry Activity Index, m-o-m	Sep	0.0%	1.5%
12:10	Eurozone	ECB's Mersch speaks in Paris			
13:30	UK	PSNB, ex-Banking Groups	Oct	9.4B	9.3B
13:40	Eurozone	ECB's Guindos speaks in Brussels			
14:00	Eurozone	OECD Economic Outlook			
16:30	Eurozone	ECB Account of October Policy Meeting			
17:30	US	Fed's Mester Speaks at Financial Stability Conference			
17:30	US	Philadelphia Fed Business Outlook	Nov	5.6	6.0
19:00	US	Leading Index	Oct	-0.1%	-0.2%
19:00	Eurozone	Consumer Confidence	Nov A	-7.6	-7.2
19:00	US	Existing Home Sales	Oct	5.38M	5.49M
19:10	US	Fed's Kashkari Speaks in Bloomington, Minnesota			
23:00	Eurozone	ECB's De Guindos to Speak in Madrid			
Friday, 22 November					
3:30	Japan	Natl CPI, y-o-y	Oct	0.2%	0.3%
3:30	Japan	Natl CPI, ex-Fresh Food, y-o-y	Oct	0.3%	0.4%
4:30	Japan	Jibun Bank Japan PMI Manufacturing	Nov P	48.4	
12:00	Eurozone	ECB President Lagarde Speaks in Frankfurt			
13:00	Eurozone	Markit Eurozone Manufacturing PMI	Nov P	45.9	46.4
17:00	Eurozone	Bundesbank President Weidmann speaks in Frankfurt			
18:45	US	Markit US Manufacturing PMI	Nov P	51.3	51.5
18:45	US	Markit US Composite PMI	Nov P	50.9	
19:00	US	U. of Mich. Sentiment	Nov F	95.7	95.7

* UAE time
Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM Economies						
	UAE	Dubai PMI	Oct	52.6		54.6
	Qatar	Qatar Financial Center PMI	Oct	49.0		47.3
	China	Aggregate Financing CNY	Oct	2270.0B	950.0B	618.9B
	China	New Yuan Loans CNY	Oct	1690.0B	800.0B	661.3B
	China	Money Supply M2, y-o-y	Oct	8.4%	8.4%	8.4%
Monday, 11 November						
13:30	UK	GDP, q-o-q	3Q P	-0.2%	0.4%	0.3%
13:30	UK	GDP, y-o-y	3Q P	1.3%	1.1%	1.0%
13:30	UK	Industrial Production, m-o-m	Sep	-0.7%	-0.1%	-0.3%
13:30	UK	Trade Balance, GBP Million	Sep	-£1760M	-£2000M	-£3360M
16:00	India	Industrial Production, y-o-y	Sep	-1.4%	-2.3%	-4.3%
Tuesday, 12 November						
3:50	Japan	Money Stock M2, y-o-y	Oct	2.4%	2.4%	2.5%
10:00	Japan	Machine Tool Orders, y-o-y	Oct P	-35.5%		-37.4%
11:00	Turkey	Current Account Balance	Sep	2.68B	2.15B	2.48B
13:30	UK	Claimant Count Rate	Oct	3.3%		3.4%
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Sep	3.7%	3.8%	3.6%
13:30	UK	ILO Unemployment Rate, 3M	Sep	3.9%	3.9%	3.8%
Wednesday, 13 November						
13:30	UK	CPI, m-o-m	Oct	0.1%	-0.1%	-0.2%
13:30	UK	CPI, y-o-y	Oct	1.7%	1.6%	1.5%
13:30	UK	CPI Core, y-o-y	Oct	1.7%	1.7%	1.7%
14:00	Eurozone	Industrial Production SA, m-o-m	Sep	0.4%	-0.2%	0.1%
16:00	India	CPI, y-o-y	Oct	4.0%	4.4%	4.6%
17:30	US	CPI, m-o-m	Oct	0.0%	0.3%	0.4%
17:30	US	CP, ex-Food and Energy, m-o-m	Oct	0.1%	0.2%	0.2%
17:30	US	CPI, y-o-y	Oct	1.7%	1.7%	1.8%
17:30	US	CPI, ex-Food and Energy, y-o-y	Oct	2.4%	2.4%	2.3%
23:00	US	Monthly Budget Statement	Oct	$82.8B	-$130.0B	-$134.5B
Thursday, 14 November						
3:50	Japan	GDP SA, q-o-q	3Q P	0.4%	0.2%	0.1%
3:50	Japan	GDP Annualized SA, q-o-q	3Q P	1.8%	0.9%	0.2%
6:00	China	Industrial Production, y-o-y	Oct	5.8%	5.4%	4.7%
6:00	China	Retail Sales, y-o-y	Oct	7.8%	7.8%	7.2%
8:30	Japan	Tertiary Industry Index, m-o-m	Sep	0.3%	1.1%	1.8%
11:00	Turkey	Industrial Production, y-o-y	Sep	-3.6%	3.3%	3.4%
13:30	UK	Retail Sales, inc-Auto Fuel, m-o-m	Oct	0.0%	0.2%	-0.1%
13:30	UK	Retail Sales, inc-Auto Fuel, y-o-y	Oct	3.1%	3.7%	3.1%
14:00	Eurozone	GDP SA, q-o-q	3Q P	0.2%	0.2%	0.2%
14:00	Eurozone	GDP SA, y-o-y	3Q P	1.1%	1.1%	1.2%
17:30	US	PPI Final Demand, m-o-m	Oct	-0.3%	0.3%	0.4%
	Egypt	Lending Rate	14-Nov	14.25%		13.25%
	Egypt	Deposit Rate	14-Nov	13.25%	12.25%	12.25%
Friday, 15 November						
14:00	Eurozone	CPI Core, y-o-y	Oct F	1.1%	1.1%	1.1%
17:30	US	Empire Manufacturing	Nov	4.0	6.0	2.9
17:30	US	Retail Sales Advance, m-o-m	Oct	-0.3%	0.2%	0.3%
17:30	US	Retail Sales, ex-Auto, m-o-m	Oct	-0.1%	0.4%	0.2%
17:30	US	Retail Sales Control Group	Oct	-0.1%	0.3%	0.3%
18:15	US	Industrial Production, m-o-m	Oct	-0.3%	-0.4%	-0.8%
	India	Exports, y-o-y	Oct	-6.6%		-1.1%

* UAE time
Source: Bloomberg

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